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SUBJECT: GARMENT JOB LOSSES ON THE RISE

REFS: A) PHNOM PENH 525
B) PHNOM PENH 409
C) PHNOM PENH 277
D) PHNOM PENH 276

SENSITIVE BUT UNCLASSIFIED

11. (U) SUMMARY: Since the global economic slowdown hit Cambodia's garment sector last year, over 60,000 workers have lost their jobs. An additional 30,000 or so have seen their incomes reduced as hours and overtime are cut. However, the raw unemployment numbers do not reflect the full extent of the crisis's effect on Cambodian workers and the livelihoods of the estimated 12% of the population that they directly and indirectly support which could have greater consequences for Cambodian society at large. END SUMMARY

As Exports Fall, Job Losses Rise

12. (U) Cambodia's garment industry is the key engine of growth for the economy, representing 80% of export revenues and an estimated 30% of total GDP in 2008 (Ref C). Given the sector's heavy dependence on U.S. demand (about three-fourths of the sector's exports go to the United States) and growing competition from regional players such as China, Bangladesh, and Vietnam, exports have fallen and the number of laid-off workers is rising (Ref C). The Ministry of Commerce estimates that total exports fell 26% year on year for the first quarter of 2009. Garment exports in particular have dropped 20% in the first five months of 2009, and the Ministry of Commerce expects garment exports to decline at least 30% this year. Over 60,000 workers have already lost their jobs, with continuing job losses every month. (NOTE: There have been some new factory openings, but too few to offset the number of closures. END NOTE.)

13. (U) Facing declining orders, some factories at first tried to adjust by relocating to less expensive areas farther from Phnom Penh in an effort to cut operating costs. Those garment workers who could not relocate found themselves out of a job. Now, the sharp decline in orders from the U.S. has quickened the pace of factory closings within Cambodia. Garment factories are over 90% foreign-owned (e.g., Taiwan, Hong Kong, China, and Korea), which combined with the highly transportable nature of the cut and sew industry, contributes to the ease of factory closures.

14. (U) The pace of factory openings, closings, and layoffs has made it difficult to accurately capture figures representative of the current state of garment sector employment. At its peak in 2008, the garment industry had over 300 effectively operating factories. In April, 470 factories were registered with the Ministry of Commerce (261 effectively operating) with 290,439 employees on the payroll. This represents over a 14% decrease in workers from the 339,346 a year ago. Ministry of Commerce statistics for June 2009 show 474 registered factories (258 effectively operating). In contrast, in June 2008 there were 447 registered factories (307 effectively operating).

15. (U) In July of this year, the Free Trade Union of the Workers of the Kingdom of Cambodia estimated the number of unemployed (since the global crisis began to impact the sector last Autumn) at 63,000 workers. (NOTE: Numbers produced by the World Bank and the Garment Manufacturers Association of Cambodia (GMAC) reflect this estimate. END NOTE.) However, the Royal Government of Cambodia (RGC) has rejected these claims and asserts that when accounting for workers're-absorption into the labor market, the unemployment figure is closer to 20,000. When including workers whose hours have been decreased, the number of workers affected increases to 90,000. July figures released by GMAC estimate that one in six Cambodian garment workers have lost her job since the beginning of this year (Ref C).

Salaries and Benefits Decline

16. (U) Some of these factories close their doors only to reopen them under a new name and/or new location to take advantage of tax incentives. (NOTE: To attract foreign investment, Cambodia extends tax-exempt status to new factories for 5 years with the possibility of a 3-year extension. END NOTE.) These factories also tend to reopen with fewer employees, opting to select those that have asked for little or no leave, have no known union affiliation, and are younger. Opening as a new factory also has the additional benefit of effectively wiping out all seniority pay bonuses for older employees as they are technically now "new" employees, effectively cutting out as much as \$10-15 from a previously "senior" employee's monthly salary. Some factories have responded to the slowdown with unannounced closings, effectively eliminating workers' opportunities to claim severance pay packages as required by Cambodian law. Others have temporarily suspended production, closing down for weeks

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or months at a time but paying either little or no salary to workers.

Over 1 Million Livelihoods At Risk

17. (U) Job losses and reduced salaries in the garment sector have broader consequences for Cambodian society because unemployment in the garment sector has a multiplier effect that affects the livelihoods of entire families and communities. While approximately 290,000 people are directly employed within the garment industry, the World Bank (WB) estimates that garment industry wages support an estimated 1.7 million people in Cambodia, which translates to approximately 12% of the population. Over 95% of garment workers are young women, many of whom remit 30-50% of their wages to support family members in the provinces (Ref A).

Comment

18. (SBU) Without a sharp recovery, current unemployment trends and hiring practices have the possibility of severely undercutting Cambodia's recent achievements in poverty reduction. These factors, coupled with the current economic and political climate (Refs B,C) and Cambodia's growing need to supply new jobs for 270,000 youths entering the work force each year, are a potential source of social friction and local unrest. While lower living standards are the norm for many within Cambodia, such conditions have been accepted with the expectation of continued progress. The global economic crisis has curtailed this progress and the historic issues of low skill and educational levels have limited the number of options available to many of the unemployed. Laid-off garment workers have been forced to turn to more risk-prone ways of making a living (Ref D). SEPTTEL will discuss the impact of job losses on the workers themselves and examine the options available to them after factory closures.

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